

CAMBIAR EUROPE SELECT ADR COMMENTARY 4Q 2019

MARKET REVIEW

European equities (defined as the MSCI Europe Index) posted a fourth-quarter gain of 8.8%, closing out 2019 with a calendar-year return of 23.8%. The catalysts behind the uptick in investor sentiment was news of a pending trade deal between the U.S. and China and hopeful progress on the Brexit front with the landslide election of PM Boris Johnson.

Investment style played a material role in portfolio returns in 2019, as growth stocks outperformed their value counterparts by a wide margin. This style divergence also took place in European equities, as evidenced below:

	Performance
MSCI Europe Index	23.8%
MSCI Europe Growth	30.0%
MSCI Europe Value	17.4%

This growth-over-value style trend has been in place for much of the past decade, undoubtedly aided by the low/negative rate environment that has persisted over this timeframe. Low rates decrease the discount rate applied to future cash flows – thereby increasing their present value. As growth stocks often tend to have more of their cash flows in future years, the low discount rate has a more positive impact on the present value of growth stocks (vs. value).

Although Cambiar's investment discipline provides some degree of dynamism to invest in growth companies, price sensitivity is an important consideration to the buy decision – thus a spread of this magnitude makes it a challenge for value managers to keep pace. It is worth noting that style divergence waned in the second half of the year, thus providing a more level playing field.

EUROPE SELECT ADR

CONTRIBUTORS

Top Five	Avg. Weights	Contribution
Anglo American	2.49	0.67
Lloyds Banking	2.48	0.59
NXP Semiconductors	3.57	0.54
ASML Holding	2.65	0.51
Siemens Healthineers	2.50	0.50

DETRACTORS

Bottom Five	Avg. Weights	Contribution
RWE	2.61	-0.07
Naspers	0.42	-0.07
BHP Group	0.13	-0.07
Rolls-Royce	1.83	-0.14
Danone SA	3.27	-0.22

A complete description of Cambiar's performance calculation methodology, including a complete list of each security that contributed to the performance of the Cambiar portfolio mentioned above is available upon request. Please contact Cambiar at 1.888.673.9950 for additional information. Past performance is no guarantee of future results.

	4Q 2019	1 Year	3 Year	5 Year	Since Inception
Europe Select ADR _(gross)	7.7%	24.0%	8.1%	6.3%	5.5%
Europe Select ADR _(net)	7.5%	23.1%	7.3%	5.7%	5.0%
MSCI Europe	8.8%	23.8%	9.8%	5.1%	4.5%

Europe Select ADR Composite Inception Date: 10.31.2014 / See Disclosure –Performance

The Cambiar Europe Select strategy posted a strong absolute return for the quarter, although trailed the benchmark by a modest margin. Given the aforementioned spread between growth and value that took place in 2019, the Cambiar portfolio managed to hold its own – posting a virtually in-line return for the year.

All sectors posted a positive return in the quarter, though the ‘risk-on’ underpinning in the market favored more cyclically-gearred sectors such as Technology, Materials and Industrials. Tech and Industrial stocks also paced the index on a full-year basis. In contrast, safe-haven sectors such as Consumer Staples, Utilities and Communication Services (i.e., telecom companies) lagged on a relative basis.

Applying this backdrop to the Europe Select portfolio, Cambiar benefitted from both an overweight allocation as well as strong stock performance within Technology – for both the quarter and full-year timeframes. The active decision to increase exposure to Technology in the late 2018/early 2019 timeframe has served the portfolio well – as NXP Semiconductors and ASML (semi equipment) posted strong returns over the course of the year. While valuations within the sector are no longer inexpensive on a statutory basis, it is Cambiar’s view that the ‘E’ in the P/E multiples remains depressed. For example, earnings within the portfolio’s semiconductor positions have yet to inflect higher. As the semi cycle recovers, consensus estimates will move higher and more accurately reflect steady-state earnings for these companies.

Two sectors where Cambiar was unable to keep pace with the benchmark during the quarter were Utilities and Industrials. Within Utilities, Engie and RWE posted small losses – more a function of a rotation out of the sector, vs. a change in company fundamentals. Within Industrials, aerospace engine manufacturer Rolls-Royce has admittedly been a frustrating position since Cambiar’s initial attachment in May. The company has an approximate 50% market share in widebody planes and a strong order book but has unfortunately been plagued by remediation costs for one of their engine models. Rolls-Royce has been proactive in addressing this issue, resulting in a shorter-term hit to profits. In meeting with Rolls-Royce management, Cambiar is confident that the company is taking the right steps, and we anticipate the investment case to begin tracking more in line with expectations in the coming quarters.

Trade activity in the quarter was comprised of four new purchases and three sales. Consistent with Cambiar’s stock-by-stock approach, there was nothing thematic

about the incoming companies – examples included a UK health/home products company, a French pharmaceutical, and a French building materials company. There was one ‘swap’ in the quarter, as Australian mining company BHP Group was sold in favor of UK-domiciled Anglo American. While BHP had been a strong outperformer over Cambiar’s holding period, we believe that Anglo is poised to offer a more attractive risk/reward opportunity.

Given the rally in European stocks over the course of 2019, any residual cash was a drag on performance (vs. a fully-invested benchmark). Cambiar’s cash position cost the portfolio approximately 100 bps for the year (after adding value in 2018). Cambiar is not trying to be tactical in our management of cash within the portfolio; it is a by-product of the buy and sell process. When evaluated over a multi-year timeframe, cash does not comprise a material impact to portfolio return.

On a country basis, the Europe Select portfolio remains skewed to core Europe, while underweight the UK. This UK underweight was a modest drag in the quarter, as UK-based stocks rallied post-election. Although a break in the political impasse is a firm step in the right direction, UK economic growth continues to stall, and ongoing uncertainty regarding the pace/terms of Brexit remains. As such, Cambiar would not be surprised if there was some subsequent give-back in UK equities. With the exception of Lloyds Banking Group, Cambiar’s UK positions have a fairly broad revenue footprint that is less reliant on UK consumption patterns.

LOOKING AHEAD

As we transition into a new year (as well as a new decade), it is probably safe to assume that the strong returns delivered in the global equity markets are unlikely to be replicated in 2020. Given the somewhat non-discriminatory melt-up in stocks to end the year, investors do not appear to be pricing in a lot of risk.

U.S. stocks, in particular, are trading at somewhat overbought levels on trade optimism. In the aggregate, European stocks continue to trade at more reasonable levels vs. the U.S. markets (one-year forward P/E of 14.5x for the MSCI Europe Index, vs. over 18x for the S&P 500). As this disparity has been in place for most of the current cycle, low valuations may not be enough to increase investor sentiment – a pickup in economic activity would be a more impactful catalyst.

Regardless of the market environment, the emphasis at Cambiar remains on identifying well-managed

companies that (1) possess a durable competitive advantage via a differentiated product or service, (2) are trading at a reasonable valuation relative to their future earnings/cashflow, and (3) are not overly dependent on elevated cyclical conditions to propel returns.

We appreciate your continued confidence in Cambiar Investors.

DISCLOSURE

Performance: The performance information represents the respective Cambiar strategy composite and may be preliminary. Returns are presented gross (g) and net (n) of management fees and include the reinvestment of all income. Gross and net returns have been reduced by transaction expenses. Net returns are also reduced by actual investment advisory fees and other expenses that may be incurred in the management of the account. The gross returns reflect accounts with both gross and “pure” gross performance. “Pure” gross returns, applicable to separately managed accounts that are part of broker-sponsored or wrap programs that bundle fees including commissions (SMA), are not reduced by any expenses, which includes transaction costs, and are provided as supplemental information. Net returns for SMAs are calculated by subtracting actual SMA fees reported by the SMA sponsor. Cambiar negotiates advisory fees with each individual client or relationship. Please refer to our Form ADV Part 2A for additional information regarding our investment management fees. Net of fees performance reflects a blended fee schedule of all accounts within the Europe Select ADR Composite. SMAs incur bundled fees that are charged by brokerage firms which sponsor SMA fee programs and that may include transactions costs, investment management, portfolio monitoring, consulting services, and in some cases, custodial service fees. Cambiar clients may incur actual fee rates that are greater or less than the rate reflected in this performance summary. Results are reported in U.S. dollars. Index returns include the reinvestment of all income, and assume no management, custody, transaction or other expenses. Each index is a broadly based index that reflects overall market performance and Cambiar’s returns may not be correlated to the index against which it is compared for a number of reasons including investment approach and number and types of holdings. Each index is unmanaged and one cannot invest directly in an index. Cambiar’s past results do not necessarily indicate Cambiar’s future performance and, as is the case with all investment advisors who concentrate on equity investments, Cambiar’s future performance may result in a loss. The top/bottom contributors is for a representative portfolio in the strategy. A complete description of Cambiar’s performance calculation methodology, including a complete list of each security that contributed to the performance of the portfolios, is available upon request. Please contact Cambiar at 1-888-673-9950 for additional information.

Europe Select ADR Benchmark: The MSCI Europe Index is a free float-adjusted, market capitalization weighted index that measures equity market performance of European developed markets. Benchmark returns are net of withholding taxes. Cambiar typically follows each custodian’s treatment of tax withholding and therefore dividends may be presented as gross or net of dividend tax withholding depending on the custodian’s treatment. Withholding taxes may vary according to the investor’s domicile.

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